

BILL # HB 2711

TITLE: tax incentives; biodiesel; ethanol 85

SPONSOR: Boone

STATUS: As Amended by House ENV

PREPARED BY: Tim Everill

FISCAL ANALYSIS

Description

The strike everything amendment to this bill provides that after January 1, 2007, real and personal property and improvements used specifically to produce ethanol or 100% biodiesel fuels are to be classified as Class 6 property for property tax purposes rather than Class 1.

Estimated Impact

The bill would not have a fiscal impact relative to the current revenue base as there are no existing biodiesel or ethanol fuel production facilities in the state. There is a facility being constructed so the bill would result in future foregone increases in net assessed value (NAV). The foregone increases in NAV would have reduced the state's K-12 education formula cost.

Analysis

As noted above, there are currently no biodiesel or ethanol fuel production facilities located in the state. However, construction has begun on an ethanol fuel production facility located near the city of Maricopa. The plant's owner indicates that the plant will cost approximately \$62 million to build, and that construction will be completed by February 2007.

Based on the construction schedule, the plant would enter the property tax rolls in TY 2009, providing an increase in statewide NAV. However, assuming that under current statute, biodiesel or ethanol fuel production facilities would be classified as Class 1 (commercial) property, this bill would result in less of an increase in statewide NAV in TY 2009, as Class 1 property would be assessed at 23% of its full cash value in TY 2009, and Class 6 property is assessed at 5%. The dollar impact of the reduced assessment ratio for this property on FY 2010 property tax revenue cannot be determined. It is difficult to estimate the assessed value of commercial property based on the initial construction cost of the facility.

While this bill may result in some foregone increase in statewide NAV, it should be noted that the provisions of this bill may provide an incentive for further construction and expansion of biodiesel and ethanol production facilities in the state, resulting in further increases in NAV.

Local Government Impact

This bill would result in foregone property tax revenues for local governments in FY 2010 and beyond.

2/16/06